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Motivation – Alcohol Regulation

- ... Alcohol regulation as means to discouraging excessive consumption
 - † Societal harms (crime, risky teen behavior, drunk driving) heterogeneous and dependent on consumption occasion
 - † Aggregate consumption responds to price (but not much)
 - † Some aggregate evidence that high prices (might) reduce societal harms

- ... Regulatory approaches to raising prices (& government revenue):
 - † Ad-valorem and specific taxes
 - † Market power in the supply chain (exclusive territories, PH laws)
 - † State-run wholesale/retail; pricing akin to ad-valorem tax
 - „ Ignores preference variation for differentiated products, affecting state revenue and consumer welfare in aggregate and in distribution

This paper I: Theory & Descriptive Evidence

... PH laws and tacit collusion

- † Little unilateral incentive for distributors to undercut competitors
- † Price set by firm with lowest opportunity cost reflecting marginal cost and within-firm-portfolio cannibalization effects

... Empirical tests

1. State-level consumption drops by 4-8% after abolition of PH regulations (but few policy changes)
2. Prices in CT higher than surrounding states w/o PH
- 3.

This paper II: Contrast PH with alternatives

- ... Descriptive evidence suggests:
 - † PH raises price: reduces consumption
 - † ...but more so for inelastically demanded products affects product choice
- ... How large are product choice inefficiencies?
 - † Estimate discrete choice model of demand for differentiated spirit products
 - † Impose PH model's optimal pricing to find implied (constant) distributor MC
 - † Contrast welfare under current system perfectly competitive distribution system combined with ad-valorem or specific tax
- ... Results suggest that for given consumption, optimal ad-valorem tax generates tax revenue nearly equal distributor profit and increases CS by about 8%.

Suggestions

- ... More detail on interaction between distillers and distributors useful
 - † Single firm distribution common: for top 100 products,
 - „ Of 6,327 product months, 2,722 single distributor (43%)
 - „ Not affected by PH regulations what are these products?
How are distribution decisions made by distillers?
 - † Can we learn something about how close to monopoly pricing PH comes by comparing single and multiple distributor products (with obvious selection caveats)?
 - † Are there changes in distribution networks by distillers over time to look at how wholesale price responds to number of distributors carrying product?

